



WEEKLY OUTLOOK



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HOG PRODUCERS WILL RELEARN THE WORD "PROFIT" IN 2000

The last time pork producers could use the word "profit" when referring to their bottom line was November 1997. With pork supplies dropping 3 percent in 2000, they can begin to practice that golden word, although it may be March before most are solidly back in the black.

The USDA's *Hogs and Pigs* report released in late December reported that the nation's breeding herd was down 7 percent from the previous year's mark, and that the market herd was down 4 percent. The erosion of the market herd is just what is needed to reduce an already glutted market supply to levels that will allow hog prices to rise back above costs. Farrowing intentions are down 3 percent and 5 percent for the winter and spring quarters, respectively.

The sharp reductions in the breeding herd through the Midwest continued unabated as small producers cut herds or dropped out of the industry altogether. The drama of the exodus was particularly evident east of the Mississippi, led by a decrease of 21 percent of the breeding herd in Illinois in the last year, followed by Wisconsin (24 percent), Indiana (18 percent), and Ohio (15 percent). These four states accounted for a decrease of 240,000 head. At 18 pigs per sow per year, this means over 4 million fewer hogs in the eastern Corn Belt for 2000.

The direction of the breeding herd was the same in the western Corn Belt, although the percentage declines were not as large. Iowa's breeding herd was down 8 percent, Minnesota down 10 percent, Kansas down 12 percent, and South Dakota down 8 percent. The total decline in these four states was 220,000 animals, also meaning nearly 4 million fewer market hogs in this region in 2000. As a result, packer supplies will be much tighter with stronger bids for hogs and much tighter packer margins than experienced in the past two years. Some plant slowdowns, or even shutdowns, may result by the last-half of 2000.

While midwest hog supplies will tighten significantly, the southwest and western fringes of the Corn Belt will experience increased supplies. The largest breeding herd increases were in Oklahoma and Colorado, where each state increased by 30,000 sows, and in Utah where the breeding herd increased by 10,000 sows. These three states have 70,000 more sows, which will produce about 1.4 million more pigs for 2000, somewhat offsetting the huge decreases in the Midwest. Some of the pigs from this expansion will be moved back into the Midwest for finishing. This is particularly true of the Colorado growth.

The number of farms with hogs dropped below 100,000 for the first time. With 98,460 farms, there

was a loss of over 15,000 hog farms in the past year. Iowa led the reduction with a decline of 3,000 farms, or 17 percent. As with most states, it was the small Iowa farms that quit, with virtually all of the exiting farms having inventories of less than 1,000 animals (100 sows or less). Illinois hog farm numbers stood at 6,500 (down 7 percent) and Indiana at 6,200 (down 3 percent).

For 2000, prices are expected to average about \$41 per live hundredweight. Winter prices are expected to average in the mid-\$30s. If so, prices will rally from the \$33-\$35 range at the start of the year to the higher \$30s by the end of the first quarter. Prices are expected to move higher into the spring, perhaps into the \$42-\$45 range by June. Summer prices are expected to average in the \$40 to \$45 range. If spring farrowing intentions do drop 5 percent as reported, the normal seasonal dip in prices in the fall should not occur. This means fall prices could continue to trade in the low-to-mid \$40s. If demand remains favorable, prices could be at least \$2 higher than forecast, and will likely improve further into the first-half of 2001.

Costs are expected to remain low in 2000, in the range of \$36 to \$37 per live hundredweight. Profits in the range of \$5 per live hundredweight are in prospect. This compares with losses of about \$2 in 1999 and a loss of \$7 in 1998. It remains likely that the year 2001 will also be a favorable profit year, in the range of \$3 to \$6 per live hundredweight. The last two years of back-to-back profits were 1996 (+\$4.60/cwt) and 1997 (+\$7.30/cwt.).

The most favorable prices of this cycle are expected in the mid-2000 to mid-2001 period. Producers will want to be at maximum production at this time. On the other hand, those who have been seeking a place to liquidate their herds should also consider this period, especially mid-2001. Given this price outlook, lean hog futures for this summer and fall should not be sold unless prices are \$62 or higher. These levels have been achieved for summer contracts, but not for those maturing in the fall. In the past, futures have tended to underestimate the ultimate strength of hog prices in the high price period. Options should be considered as a way to establish minimum prices, while still allowing upside price potential. Higher hog prices appear to be on the way, and 2000 profits may be more vulnerable to higher feed prices than to lower hog prices. For this reason, producers may want to consider locking in feed prices for the last half of 2000 and early 2001.

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